

**THE OFFICE OF REGULATORY STAFF
REHEARING SURREBUTTAL TESTIMONY
OF
DANIEL F. SULLIVAN
DECEMBER 5, 2017**



DOCKET NO. 2014-346-WS

**Application of Daufuskie Island Utility Company,
Incorporated for Approval of an Increase for Water
and Sewer Rates, Terms and Conditions**

SURREBUTTAL TESTIMONY OF

DANIEL F. SULLIVAN

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2014-346-WS

IN RE: APPLICATION OF

DAUFUSKIE ISLAND UTILITY COMPANY, INCORPORATED

FOR APPROVAL OF AN INCREASE FOR WATER AND SEWER RATES,

TERMS AND CONDITIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Daniel F. Sullivan. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as the Deputy Director of the Audit Department.

Q. ARE YOU THE SAME DANIEL SULLIVAN WHO PRE-FILED 14 PAGES OF REVISED REHEARING TESTIMONY AND 9 EXHIBITS MARKED AS REVISED REHEARING AUDIT EXHIBIT DFS-1 THROUGH DFS-9 IN THIS DOCKET ON NOVEMBER 29, 2017?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of Daufuskie Island Utility Company, Inc. ("DIUC" or "Company") witness Gary C. White

1 filed on November 30, 2017 and further explain the procedures used by ORS for the
2 rehearing.

3 **Q. PLEASE FURTHER DESCRIBE THE PROCEDURES USED BY ORS FOR THE**
4 **REHEARING.**

5 **A.** As stated in my revised rehearing testimony, ORS reviewed the South Carolina
6 Supreme Court Opinion No. 27729 and updated the exhibits filed by Ivana C. Gearheart
7 in this case on October 2, 2015 in order to comply with the Court's guidance. ORS also
8 updated its rate case expense amortization adjustment for additional rate case expenses
9 that had been incurred by the Company and updated all "fall-out" adjustments. ORS
10 prepared Revised Rehearing Audit Exhibits DFS-1 through DFS-8 based on these
11 changes and using the Company's proposed increase in its rehearing testimony and
12 exhibits. ORS also prepared Revised Rehearing Audit Exhibit DFS-9, which shows the
13 revenue increase necessary, based on ORS rehearing accounting and pro forma
14 adjustments, to derive the PSC approved 9.28% return on equity.

15 ORS's review for the rehearing was specific and limited to the procedures in the
16 above paragraph. Due to the expedited schedule in this remand case, as requested by the
17 Company, ORS did not re-audit the books and records of the Company for the rehearing
18 nor did it investigate further the audit performed as part of Docket No. 2011-229-WS or
19 revisit the audit performed by Ivana C. Gearheart as part of this docket.

20 **Q. PLEASE ADDRESS THE ASSERTIONS MADE BY COMPANY WITNESS**
21 **GARY C. WHITE IN HIS REBUTTAL TESTIMONY IN REGARDS TO PLANT-**
22 **IN-SERVICE, ACCUMULATED DEPRECIATION, RETIREMENT UNITS, THE**
23 **ORS ROLL-FORWARD OF PLANT AND THE SERVICE LIFE OF ASSETS.**

1 **A.** The Company states that the ORS plant-in-service balances are in conflict with
2 the amounts shown on the Company's books and records. ORS agrees. ORS's plant-in-
3 service figures have differed from the Company's plant-in-service figures since at least
4 Docket No. 2011-229-WS due to nonallowable plant and adjustments made by ORS in
5 previous cases that have not been made by the Company. With regards to specific ORS
6 plant amounts such as organization costs, water mains, sewer pumping equipment and
7 general plant differing from the Company, ORS did not review these plant items or
8 possible ORS and Company plant-in-service variances as part of the rehearing due to the
9 limited time for review.

10 With regards to the ORS accumulated depreciation, retirement units not properly
11 reducing accumulated depreciation, the ORS roll-forward of plant, and the ORS service
12 lives of assets, ORS also did not review these items as part of this rehearing.

13 ORS performed its review of the items in the preceding two paragraphs during the
14 review conducted to prepare testimony in the original proceeding. Given the expedited
15 timeline of the rehearing, as requested by the Company, ORS limited its procedures to
16 applying the guidance from Supreme Court Opinion 27729, updating rate case expenses
17 and all "fall-out" adjustments.

18 **Q. PLEASE ADDRESS THE ASSERTION MADE BY COMPANY WITNESS GARY**
19 **C. WHITE IN HIS REBUTTAL TESTIMONY IN REGARDS TO PRO FORMA**
20 **PLANT-IN-SERVICE AS OF 12/31/15.**

21 **A.** The Company states that it is not an accurate conclusion that plant-in-service and
22 depreciation expense were calculated as of December 31, 2014 and include no plant
23 additions subsequent to December 31, 2014. The Company then refers to its Exhibit

GCW-R1, Schedules W-B.2 and S-B.2, Schedules W-B.3 and S-B.3, and Schedules W-B.4 and S-B.4. ORS does not dispute that the Company's original application and rehearing exhibits include amounts for pro forma plant-in-service for water of \$44,698 and sewer of \$111,733. However, ORS Audit Exhibit ICG-5 did not include any amounts for plant-in-service after December 31, 2014, and depreciation expense and accumulated depreciation were calculated using the year ending December 31, 2014. Based on my review of the general ledger provided by the Company for the original proceeding for the period 1/1/15 – 6/30/15, the Company had additions to water plant-in-service of \$24,464 and sewer plant-in-service of \$6,981. ORS did not include the additions to water plant-in-service of \$24,464 and sewer plant-in-service of \$6,981 in the calculations of plant-in-service, depreciation expense and accumulated depreciation on Audit Exhibit ICG-5. For the purpose of the rehearing, ORS limited its procedures to applying the guidance from Supreme Court Opinion 27729, updating rate case expenses and all "fall-out" adjustments. Therefore, Revised Rehearing Audit Exhibit DFS-5 also does not include any additions for pro forma plant. ORS would also note that since no pro forma plant was included by ORS in its calculation of plant-in-service, calculating depreciation expense and accumulated depreciation through December 31, 2015 would only serve to increase accumulated depreciation, lower the Company's rate base, and lower the income necessary to calculate the approved return on equity.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.